



MONTHLY REPORT

TRADE SERVICING

– WUSATA



September 2022

Monthly Trade Servicing Report

Market: China & HK Submitted by: China In-market Representative Month & Year: September 2022

Executive Summary

In China, the market for U.S. food and drink products continue to show signs of positive growth despite lockdowns in various major cities, for example Shenzhen and Chengdu, both important markets for imports consumption. According to USDA statistics, U.S. exports of agricultural products increased 14% in July 2022 y-o-y compared to the same period in 2021, with bulk and consumer products both saw increases of 23% and 9% respectively. On the bulk front, it hasn't been surprising as China has always needed much of its bulk commodities from the U.S., in addition to its fulfillment of the Phase One Agreement. However, the real positive sign lies in the increase in consumer products, as it signals more to the real demand from consumers. For example, upticks in tree nuts, dairy and pet food particularly showed consumption is continuing its ascension, with pet food being once again highlighted as a major driver for U.S. suppliers, as exports have nearly doubled from the full 2021 calendar year by July this year. This bodes well for more pet food suppliers in the U.S. to take advantage of the demand, and through market engagement activities, develop potential businesses with buyers in China.

Market Intelligence Update

Ag is Sole Bright Spot in Sino-U.S. Trade

So far this year, U.S. exports to China are running at 2021's level and there is little reason to expect improvement in the near term, said analyst Chad Bown of the Peterson Institute for International Economics on Monday (Sept 12). "While agriculture overall remains a U.S. export bright spot in 2022, products like pork, wheat, and corn face new worries," he wrote.

Farm exports "remain the most positive performer," outshining energy or manufacturing, with sales running 16% above 2021's pace, said Bown. Much of the increase is the result of higher commodity prices rather than larger tonnage. Soybeans, cotton and sorghum recorded the largest increases in sales. "Pork, corn and wheat have performed poorly this year." China has rebuilt its hog herd since an epidemic of African swine fever, so it is importing less pork.

"The future of U.S.-China trade in farm products is uncertain," wrote Bown, pointing to concerns held by U.S. trade representative Katherine Tai about the potential vulnerability stemming from reliance on China as a customer. Beijing buys nearly \$1 or every \$5 of U.S. ag exports and U.S. ag exports suffered when China put high tariffs on them during the trade war.

“Food trade may evolve like energy has, as policymakers base relationships on perceived vulnerabilities to national security,” said Bown. “Yet food is different. Reorganizing food supplies and food trade along the lines of geopolitical blocs is likely to reduce food security globally.”

China’s prices rise slower than expected amid weak demand

China’s consumer prices rose at a slower-than-expected pace in August while producer inflation hit an 18-month low, pointing to weak domestic demand in the world’s second-largest economy.

The consumer price index (CPI) increased 2.5 percent from the same month a year earlier, National Bureau of Statistics (NBS) data showed on Friday, slower than 2.7 percent in July.

The producer price index (PPI) rose 2.3 percent, the slowest pace since February 2021, and slower than 4.2 percent a month prior, due to falling energy and raw materials prices.

“Factory gate inflation is set to fall further throughout the rest of the year thanks to a continued drop back in commodity prices and a higher base for comparison,” Capital Economics analysts Sheana Yue and Zichun Huang said in a research note.

“We think CPI inflation will remain below the PBOC’s 3 percent ceiling,” they said, referring to the People’s Bank of China.

Official and private data indicate further lost momentum in August in the Chinese economy, where property market weakness, COVID-19 containment measures and power shortages have dented consumption and factory activity.

There were 1,404 new COVID-19 infections in China on September 8, 301 of which were symptomatic, the National Health Commission said, while Chengdu has extended a lockdown for the majority of its more than 21 million citizens.

Slower growth in consumer prices came as food prices rose 6.1 percent on year in August, versus 6.3 percent in July, with non-food items at 1.7 percent from July’s 1.9 percent rise.

Core CPI, which excludes volatile food and energy prices, rose 0.8 percent, matching the previous month. On a month-on-month basis, the CPI fell 0.1 percent from July, after rising 0.5 percent in July from June. Overall industrial product prices maintained a downward trend due to falling prices in global crude oil and non-ferrous metals, NBS said separately.

China's agro-food processing sector continues growth

China's agro-food processing sector continues to grow in the first seven months of 2022, according to a report from China Media Group (CMG), on Sunday (Sept 25).

From January to July, the operating income of agricultural product processing enterprises above a designated size reached 10.65 trillion yuan (\$1.49 trillion), seeing a year-on-year increase of 5.1 percent, said CMG citing data from Ministry of Agriculture and Rural Affairs.

The accumulated profit was 652.86 billion yuan, it added.

This year, due to the combined effects of a global economic downturn and COVID-19, the pressure on the rural industry development has increased, the ministry said, cited by CMG.

As a package of policy measures, which was rolled out in May to stabilize the economy, continued to take effect, China's rural industries have shown a steady and positive development trend, the ministry said.

Also, in the first half of the year, the national rural online retail sales increased 2.5 percent year on year, reaching 975.83 billion yuan, according to the report.

The national online retail sales of agricultural products set in 250.67 billion yuan, were up 11.2 percent from the same period last year.

➤ *Activities & Achievement*

This month's activity is mainly related to trader contact for Mainland China and Hong Kong markets.

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative

